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UNCLAS HARARE 000409

SIPDIS

SENSITIVE

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

E. O. 12958: N/A

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SUBJECT: Modest Hike in Fuel Prices

Ref: Harare 338

1. (U) Summary: The GOZ has nearly doubled the price of fuel, the first increase since June 2001. The higher pump price still reflects a heavy and unsustainable subsidy, meaning the country's fuel shortage will continue. Nonetheless, this is a small step toward market-determined pricing. End Summary.

2. (U) Blend fuel now costs US\$.46/gallon and diesel .37/gallon, increases of 95 and 80 percent. (Zimbabwean motorists rarely use unleaded.) The official press reports that the GOZ is controlling diesel at a lower rate to soften the blow on public transit users, who mostly rely on diesel-operated vans.

3. (U) We briefly discussed the price increase with reps from BP/Shell and Caltex this morning. Each considers it a welcome step, but too little to affect Zimbabwe's acute fuel shortage. Both downstream operators are partly offsetting losses on infrequent retail and commercial supplies from the national oil agency NOCZIM by signing up new customers for direct-import service. Companies and organizations (like the U.S. Embassy) may engage oil firms to import fuel for their operations and staff if they pay in U.S. dollars. The Caltex rep said virtually every serious business in Zimbabwe is now either already direct-importing, or exploring the possibility. However, a 3-4 fold increase in fuel cost is obviously a burden for companies whose goods and services are price-controlled.

Comment

4. (SBU) Everyone in the oil business knows where Zimbabwe's fuel market is heading. Motorists will one day buy unsubsidized fuel, imported by fuel companies and overseen by a NOCZIM that will have evolved into a regulatory agency. However, the GOZ has a vested interest in postponing that day of reckoning and maintaining the economic distortion. Confused by large Zimdollar salaries and low controlled prices, most Zimbabweans do not appreciate how little their US\$ 5-40/month salaries buy in the world market (ref). As distortions are stripped away, Zimbabweans will have to come to terms with their acute impoverishment -- and how they got there.

Sullivan